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Coastal Empire Economic Monitor, 2nd Quarter, 2019

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Coastal Empire ECONOMIC MONITOR

CONTINUED MODERATION IN ECONOMIC ACTIVITY

The Savannah metro economy moved sideways in the second quarter of 2019, following slower growth in the first quarter. Employment growth and electricity sales bolstered economic activity, but were not quite able to overcome declines in port activity and softness in retail sales. Tourism indicators recorded mixed growth during the quarter.

The business forecasting index continued rising, but at a slower pace for the third consecutive quarter. Strength in the labor market lifted the index, but mixed activity in the regional housing market limited upward movement. Modest economic growth through the remainder of 2019 and into 2020 is expected.

Regional Economy Moves Sideways

The Savannah metro economy contracted at a rate of -0.1% (-0.3% annualized), effectively moving sideways during the quarter. The coincident index of economic activity decreased to 189.7 from 189.8 (revised). As compared to the first quarter, seasonally adjusted container handling at the port declined 7% during the second quarter. Further, a dip in consumer spending weighed on the coincident index. These declines were nearly offset by an 8% gain in electricity sales to residential, commercial, and industrial users along with increases in employment and some tourism indicators.

The tariff-related disruption of trade with China is likely related to volatility in port activity in the second quarter. In recent years, the annual value of U.S. exports to China through the ports of Savannah and Brunswick was approximately \$5 billion according to the U.S. Census Bureau's "USA Trade" database. Through the first seven months of 2019 as compared to the previous two years, U.S. exports to China through Savannah and Brunswick declined approximately 33% (see chart on reverse) while U.S. exports to China fell 15%.

Georgia-sourced exports to China were approximately \$3 billion in 2017 and 2018. Through the first seven months of 2019, Georgia's exports to China fell 20%. The largest declines were recorded in Georgia-sourced glass products (-\$180 million), aircraft and parts (-\$90 million), wood and aluminum (both, -\$80 million). In agricultural products, worldwide exports of Georgia-sourced peanuts increased 5% in 2019 through July, but peanut sales to China plummeted 67% as compared to the same time periods in 2017 and 2018. Similarly, worldwide exports of Georgia-sourced pork fell 23% in 2019, but declined 66% to China. Combined, exports of Georgia's peanuts and pork to China are down approximately \$20 million.

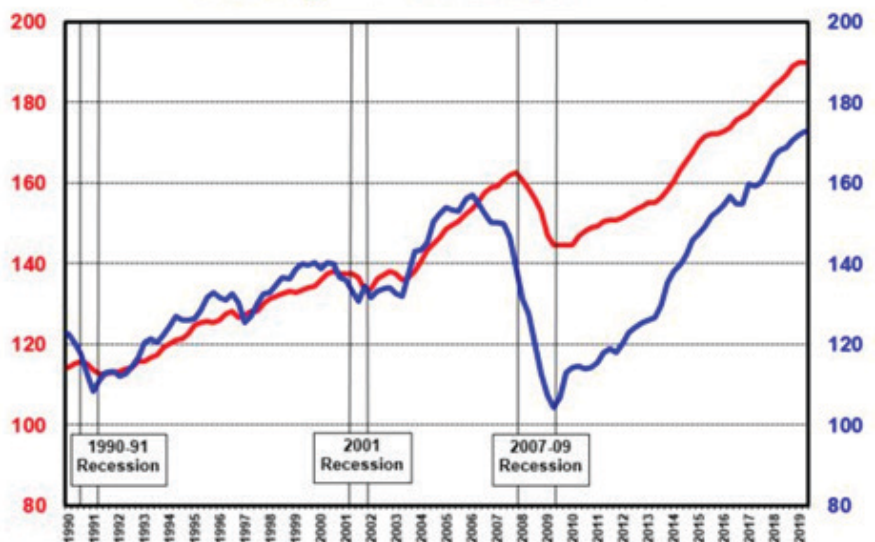
Despite the volatility in Georgia's trade with China, GPA activity remains on a long term upward trend because of growth in trade with other markets. On a year-to-date basis, the number of shipping containers handled at the port is 7% higher than year-ago figures. Strong recent growth has moved the port of Savannah up to the number three port in the country for container handling, behind only New York/New Jersey and Los Angeles/Long Beach.

Tourism indicators were mixed in the second quarter. After adjusting for seasonality, boardings at the airport increased 1.5% and automobile rentals increased 6%. However, hotel/motel tax receipts were down 2%, the number of participants on organized tours declined 11%, while alcohol sales taxes fell one-half percent. Total employment in the leisure and hospitality sector stands at 26,400, among the largest in the region's major economic sectors.

Total employment in Savannah's three-county metro area was 185,500, a gain of 200 jobs from the previous quarter. Employment is 1.4% higher than year-ago data. The modest pace of job creation occurred concurrently with substantial weakness in business and professional services wherein 2,000 jobs were lost during the past five quarters. Business and professional services is a proxy indicator of business-to-business demand for services and a bellwether of general economic activity.

The goods-producing side of the Savannah metro economy continues to add 200 to 300 new jobs per quarter. Since the start of

Savannah Metro Business Index Leading and Coincident Series



2017, the sector added 2,400 well-paid jobs, setting a new record high for the second consecutive quarter. Manufacturing has 19,200 workers, the highest in nearly 50 years. Employment in construction was stable at approximately 8,700 workers for the third consecutive quarter.

Hourly wages in the private sector declined to \$22.36 from \$22.59 in the previous quarter. The length of the workweek held steady at 33.2 hours.

U.S. Economy Slows

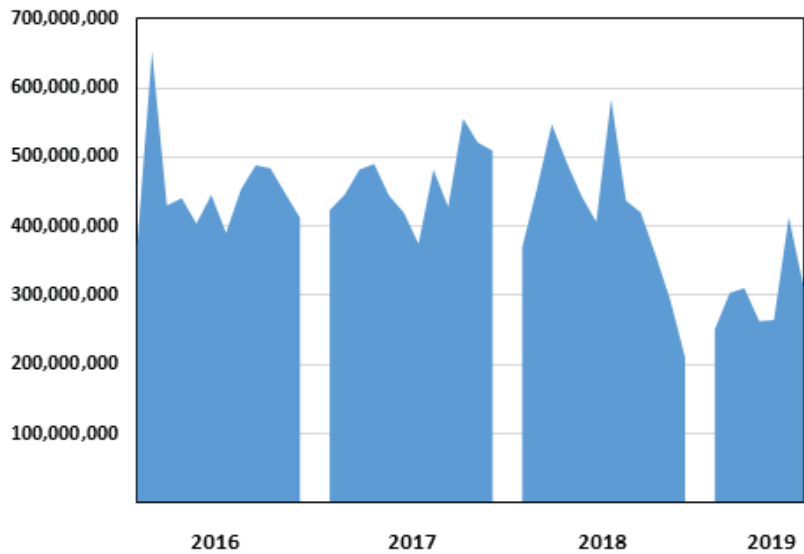
U.S. GDP increased at a rate of 2% (annualized) during the second quarter, slowing from the 3.1% in the first quarter. Consumer and government spending contributed to economic growth while falling business investment and exports caused the slowdown. Household spending accelerated to 4.6% growth and government spending increased at a pace of 4.8%. Non-residential construction fell 11% while residential construction fell for the sixth consecutive quarter (-3%). Exports fell at a pace of 5.7% while imports were unchanged.

The Federal Reserve is expected to reduce interest rates further in 2019 as the threats of global economic sluggishness, international trade volatility, and U.S. manufacturing weakness create headwinds for the economy. Indeed, markets are anticipating rate reductions totaling one-half percent for 2019. Fed projections for U.S. economic growth for 2020 and 2021 are 2% and 1.9%, respectively.

Forecasting Index Slows

The Savannah area business forecasting increased, but deceleration continued for

**Value of Exports to China
Through Ports of Savannah and Brunswick (\$ monthly)**



the second consecutive quarter. The index increased 0.6 percent (2.3%, annualized) after registering 3.1% annualized growth in the first quarter. The labor market continues to show strength while housing market indicators were mixed.

In the labor market, the number of initial claims for unemployment insurance (UI) dropped 20% to 405 from 504 in the previous quarter. UI claims are less than expected given the size of the regional workforce, and are 21% lower than one year ago. The seasonally adjusted unemployment rate fell one-half percentage point to 3.3% from 3.8%.

In the regional housing market, seasonally adjusted building permit issuance for single family homes (a proxy for new residential construction) increased substantially, reversing the decline of the

previous quarter. Building permits issued increased 12% to 540 units from 481 units. However, average valuation per single family unit decreased 14% to \$232,900 from \$270,300. This is not unexpected because the first quarter 2019 average was inflated by issuance of permits for high-end developments.

In summary, economic growth was flat in the Savannah metro area during the second quarter of 2019. Modest gains in employment and electricity sales were offset by weakness in port activity and retail trade. Continued slowing of employment growth and loss of jobs in business and professional services temper economic expectations. Very modest economic expansion of 0.5% to 1% is expected through early 2020.

A Note From the Director

The *Economic Monitor* is available by email and at the Center's website (GeorgiaSouthern.edu/parker/big/big-programs/cbaer/). If you would like to receive the *Monitor* by email, please send a 'subscribe' message to CBAER@georgiasouthern.edu.

Hyeun Shin provided research assistance.



About the Indicators

The *Economic Monitor* provides a continuously updated quarterly snapshot of the Savannah Metropolitan Statistical Area economy, including Bryan, Chatham and Effingham counties in Georgia. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a short-term forecast of the region's economic activity in the upcoming six to nine months.